



STATE OF MINNESOTA

Office of Governor Mark Dayton

130 State Capitol ♦ 75 Rev. Dr. Martin Luther King Jr. Boulevard ♦ Saint Paul, MN 55155

May 14, 2012

The Honorable Kurt Zellers
Speaker of the House
Room 463, State Office Building
100 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, Minnesota 55155

Dear Mr. Speaker:

I write to inform you that by not signing or depositing Chapter 296 House File 247 in the office of the Secretary of State, I am vetoing this legislation. Although return of the bill to the house of origin and a veto message are not required because the Legislature has adjourned *sine die*, I want to provide the reasons for my decision.

The legislative majority designed and passed this bill with very little consultation or collaboration with my administration. It is a reduced version of H.F. 2337, the earlier omnibus tax bill, which I vetoed. It shares some of the same defects. As I stated in my May 4, 2012 veto letter, "It has been my consistent position throughout this session that any new spending increases or tax reductions had to maintain the current Budget Reserve and avoid increasing future deficits." H.F. 247 would cost the state over \$46 million in this biennium and an additional \$73 million in the next biennium, which would add to a deficit already projected to be \$1.1 billion.

In our very brief discussions about a tax bill for this year, I agreed to using part of the extra money from the Health Plans' refunds for tax reductions during this biennium. I also agreed to a relatively small withdrawal from the Reserve Fund, to replace the House majority's preferred reduction in the Renters' Property Tax Refund.

H.F. 247 respected those financial parameters for this biennium; however, it ignored my requirement that any future spending must be paid for and avoid adding to the next biennium's projected deficit. By refusing to pay for its spending, the authors of H.F. 247 ignored opportunities to improve tax fairness and eliminate tax preferences, which DFL leaders and I have suggested frequently. They include the "Affiliate Nexus" tax, which would benefit both large and small Minnesota retailers, and the elimination of tax preferences for corporations' operations in foreign countries.

H.F. 247 also fails to address another of my previously stated objections to the earlier H.F. 2337. It retains a large imbalance between its significant business tax reductions and virtually no tax relief for anyone else: homeowners, renters, senior citizens, and farmers. This bill would provide almost \$120 million in tax relief over the next three fiscal years to businesses, which is 24 times more than its tax relief for homeowners. (A separate bill, H.F. 2690, which I have signed, does provide \$4.1 million in property tax relief to homeowners in this biennium; however, it is a one-time benefit only to homeowners whose property tax increases exceed 12%.)

There is no question that Minnesota businesses have been hit hard by recent property tax increases. But so has everyone else! Over the past decade commercial industrial property taxes increased by 57 percent, while residential property taxes increased by 93 percent. This bill would do little to relieve the financial hardships imposed on homeowners, renters, and farmers by the legislative majority's elimination of the Homestead Credit and cuts in Local Government Aids. I remain committed to broad-based, comprehensive property tax relief for all property taxpayers, including—but not limited exclusively to—businesses.

Furthermore, according to the Minnesota Department of Revenue, H.F. 247's one-year freeze of the statewide levy would provide the average owner of business property in Greater Minnesota valued at \$150,000 only a \$27 reduction in property taxes, a meager 0.7% tax reduction. Almost half (44%) of all business properties in Minnesota are valued at \$150,000 or less.

The typical owner of a metro business property worth \$1,000,000 would receive a reduction in property taxes of only \$228 from a total tax due of \$38,622, which would be only a 0.6% tax reduction. It is unrealistic to expect that such paltry tax relief would be incentives for business owners to hire additional employees. Such insignificant reductions for individual businesses would certainly not justify the program's total cost of over \$46 million to the state's General Fund (i.e., all other Minnesota taxpayers) during the next three years.

The bill does contain provisions, which I support. It has a greatly reduced version of my own "Jobs Now" tax credit to businesses, which hire unemployed veterans or recent college graduates. I proposed increasing the R&D tax credit last year, and previously agreed to increased funding for the Angel Investor's tax credit and the up-front capital equipment exemption from the sales tax for businesses. I also support some of the bill's local business development incentives. Regrettably, those positive features, upon which we agreed, were sacrificed in favor of partisan posturing.

In my May 4th letter, I wrote, "Two weeks ago, we began discussions about a bi-partisan, fiscally responsible tax bill to encourage economic growth and job creation. That bi-partisan effort was abandoned for this very partisan measure. In the short time left in this session, I remain available to continue our development of a fair, financially sound tax bill, which encourages job creation, but not at the expense of our future."

Unfortunately, Republican legislative leaders rejected that approach. After one brief meeting, the tax conferees drafted another bill entirely to their satisfaction, with no discussions with or input from my administration.

If there is a lesson to be learned from this session, it is that genuine bi-partisan collaborations produce successful outcomes. Notable examples include the Stadium bill, the Bonding bill, the Environmental Permit Streamlining bill, and the restoration of Health and Human Services funding.

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By contrast, legislation, which the majority writes with no attempt at bi-partisan cooperation, is usually unsuccessful. And attempts to pressure me into accepting it after it has been passed, will almost certainly guarantee a veto.

Sincerely,

Mark Dayton
Governor

cc: Senator David H. Senjem, Senate Majority Leader
Senator Thomas M. Bakk, Senate Minority Leader
Senator Julianne Ortman
Representative Paul Thissen, House Minority Leader
Representative Greg Davids
The Honorable Mark Ritchie, Secretary of State
Mr. Cal R. Ludeman, Secretary of the Senate
Mr. Albin A. Mathiowetz, Chief Clerk of the House of Representatives